BRITISH PROPERTY FEDERATION

British Property Federation submission to:

THE PORTAS REVIEW

September 2011

Executive Summary and Recommendations

Getting people shopping on our high streets

Our high streets face less trade as a result of various long-term changes, a situation that has been compounded by the recent recession.

Many of the changes in retailing are irreversible, and even if they weren't, to reverse them would leave consumers dissatisfied and our economy worse off.

Much debate about the high street over the last decade has been about the dominance of national chains and resulting so called 'clone' towns. Many national chains (Mothercare, New Look, Thorntons, HMV, O2, etc.), however, have strategies to reduce their number of stores on our high streets. We think that the clone town debate is therefore yesterday's issue and that there will be plenty of opportunities for independents on the high street in the future.

However, with the exception of some tourist destinations and/or isolated towns, a high street of independents does not tend to generate sufficient footfall to maintain a healthy high street. The debate over the next decade may be more about how we retain and attract national chains on to our high streets, rather than debating how to get them off.

Fundamentally our high streets need more trade and new ways of creating footfall. We recommend that:

R1. Assets used heavily by the public – doctors, dentists, post offices, etc – should, wherever possible, be based on the high street and planning and funding policy reflect that.

R2. The smaller supermarket formats seen on our high streets should be seen as broadly positive for the footfall they create for other retailers.

R3. E-retail pick-up points should be encouraged to locate on high streets.

R4. The National Planning Policy Framework should be amended so that the Town Centre First policy continues to include offices. Having office workers on the high street creates footfall for retailers.

R5. More is done to encourage events and other leisure activities on to our high streets. Whilst many towns have raised their game in this regard, we still lag the continent in having fetes, markets and other fun activities in our towns.

Rents and rates

It has become predictable that at opportunities such as this there are a few voices from the retail sector that call for an end to upward only rent reviews. However, the fact is that lease lengths in the UK have been slashed over the past two decades, to the point that most leases are so short they won't contain a rent review, let alone an upward only rent review (UORR).

The vast majority (95%) of new leases don't have an UORR, and as leases from the 1980s and 1990s expire upward only rent reviews for most occupiers are becoming a thing of the past.

However, about 5% of new leases are still agreed with an upward only rent review, and these reflect large development projects for which a UORR is critical.

The risks that developers face in major retail and office development projects make it almost impossible to raise the huge sums involved without UORRs, and that task has not become any easier post credit crunch. Much of the sector's investment comes from pension funds, who invest in property because it provides security of income for pensioners.

Our economy needs new space to deliver efficiency, productivity, environmental improvement and growth. UORRs used appropriately underpin all of that.

UORRs help underpin developments, such as this

What the Southbank looked like before its redevelopment

We asked our members to name a couple of major developments that would not have been possible without UORRs. Their response was that nearly all major developments use UORRs to help obtain the huge capital investment they need, from Westfield White City to the Shard. It is rare, however, to find second generation leases on such properties on UORRs.

Our analysis shows that real rents on the high street have fallen by 37% over the last 20 years. Rental growth has been 24%, but inflation 94%. If rents had been linked to inflation high street shops would have been far worse off.

What are becoming more common in the retail sector are rents linked to turnover. These aren't appropriate in all circumstances, but should be encouraged. It is difficult to legislate for their use, because turnover rents are not really applicable to the office and industrial sectors. Also they tend to be at odds with leases offering security of tenure.

One of the by-products of our analysis is that it illustrates inflation in rates for high street shops has significantly been out-pacing growth in rents. The 2008 reforms to empty rates also mean that significant sums are being siphoned off our high streets and into general government spending rather than desperately needed investment in our high streets.

We recommend that:

R6. The Government should support the greater use of turnover-based rent reviews, working with the industry to address technical issues. Such as the BCSC work on turnover data protocols, and exploring how to incentivise their use.

R7. The Review should support the BPF's efforts to introduce a standardised retail lease.

R8. The Government should seek to scrap the empty rates policy of 2008 at the earliest opportunity.

R9. And the Review should support the Government in its policy of local rate retention.

R10. The annual uplift in business rates should be fixed at 2% - the inflation target, rather than linked to the RPI. This will provide greater certainty for business and less administration costs for local and central government.

Planning and managing our high streets

Shopping centres and other out-of-town formats often have the advantage of single ownership. The landlord is able to create an identity for the centre, choose the retail mix, manage the centre so that reinforces the brand, co-ordinate marketing and refresh the centre through regular reinvestment. Single ownership is rare on our high streets, but that shouldn't stop some of these elements being replicated.

Our high streets need to plan their identity and shape their retail offer accordingly. They need leadership, business plans and day-to-day delivery. There are some very good local authorities and business improvement districts that do this, but they are still too rare.

City Central BID - Liverpool

Planning reforms currently going through parliament will allow local businesses to plan their neighbourhoods. Many BIDs would provide a forum for such planning powers. More generally, some BIDs need to move beyond their traditional functions of crime and grime, to be more strategic in outlook, planning their high street's future development. Visions often take years to deliver. Landlords have the long-term interests on our high streets and they should be involved and making compulsory funding contributions to BIDs, where the majority of landlords have voted for them.

We recommend that:

R11. The Review should support the Government's draft National Planning Policy Framework, which encourages local authorities to have a plan for their shopping areas.

R12. The Review should support and encourage the new powers in the Localism Bill, which allow for local businesses to develop neighbourhood plans.

R13. Local authorities should make more use of their Compulsory Purchase Order powers to encourage the redevelopment of key high street retail space and the Government should consider giving BIDs CPO powers in specific circumstances.

R14. The Government should implement the provisions in the Business Rate Supplements Act 2009, which allows for landlords to vote on and contribute funding towards BIDs in London, and extend such powers at the earliest opportunity to the rest of the country.

The retail offer

The carousel in Durham city centre

Our high streets need to maximise trade and therefore to be as inclusive as they can be. The also need to be attractive, fun places to go; and relatively small sums invested in infrastructure and day-to-day management can make a big difference.

Lack of parking and its cost are often cited as a major drawback of the high street. Differences in the cost of parking between high streets and out-of town retail we think is becoming less of a factor as petrol costs travelling to out-of-town negate the benefit of free parking. The convenience of parking is, however, a significant factor, and wherever possible free or cheap on-street parking should be provided on the high street.

We recommend that:

R15. More should be done to make our high streets appeal to a broadest cross-spectrum of the population, providing play areas for the young, gardens and other leisure space within town centres.

R16. Some of the schemes that larger retailers deploy to generate trade, such as loyalty cards, can be replicated on the high street.

R17. More support should be offered to the retail sector via the Government's business support services and local authorities should consider how they can support high street shops through loans and guarantees.

R18. Mentoring initiatives such as those provided by Tesco and British Land for smaller retailers in their vicinity should be encouraged.

R19. Smaller landlords should be encouraged to join benchmarking and other best practice initiatives.

R20. Free on-street parking should be provided wherever possible on high streets.

Tackling empty units

Temporary use of empty shops by charities and community groups can help our high streets feel better places and ensure some footfall is maintained. Meanwhile uses are, however, temporary solutions to what are hopefully in many cases temporary problems and should not be seen as a substitute for trading units.

Some secondary retail space is no longer viable and needs to be converted to other use.

We recommend that:

R21. The Government should use its current consultation on use classes to ensure the rules on temporary use make it as easy as possible to let on property on meanwhile uses.

R22. Intermediaries such as 3Space who try to marry up charity and community space users with landlords should be supported.

R23. The Government should follow through with its recent consultation on commercial to residential conversions, to make it easier to convert space above shops into housing.

R24. The Government should use its current consultation on use classes to simplify the 'A' classification category. The demarcation between A1 and A2 use should be simplified, dispensing with the current restriction on A2 having shop frontage to eligible for conversion to A1.

R25. As part of their local planning process local authorities should be proactively planning for and managing the transition of some secondary retail areas into other uses, especially residential use.

Introduction

1. The British Property Federation represents larger investors in property; companies and pension funds who invest in all forms of property for the benefit of their shareholders and UK pensioners. We very much welcome the opportunity to contribute to this review of the high street as the voice of the property investment sector in the UK.

2. Our members, who are mainly institutional investors in property, have about 15% of their retail property holdings in high street shops (by number of leases), and have other high street interests including leisure facilities and offices. They have generally reduced their holdings of high street retail premises over the past couple of decades as the sector's retail investment has diverted into shopping centres and retail parks, which our members can more easily control the ambience of, and that suits the floorspace demanded by modern larger retailers. Where shopping centres are located within town centres, however, there has been strong efforts to integrate centres into their broader shopping environment and the likes of Princesshay in Exeter and Whitefriars in Canterbury are good examples of this.

What is the problem?

4. There are numerous issues affecting the high street. In this response we will touch on many of them, but focus particularly on those where there is some property impact.

The recession

5. Clearly recession has had a significant impact on the retail sector like many other sectors. Generalising, however, misses a lot of detail, with sectors such as household goods being hit particularly hard by the recession, whereas food retailers have been relatively untouched.

6. The impact of the recession on the retail sector does feed through to the property sector and it is interesting to look at IPD rent figures, and compare the last recession in the early 1990s with this one. What the data illustrates is that rents adjusted significantly in London, the South East and East Anglia during the last recession, but moved very little elsewhere. During this recession, the opposite is true, with central London retail rents rising slightly, whereas there has been a severe drop in rents in all the regions outside these three 'southern' areas during this most recent recession.

7. This would seem to mirror other commentators' views that the early 1990s recession hit hard in the South, whereas the recession of 2008/2009 and its aftermath is being felt more in the Midlands, West and North.

8. The feedback of our members is that even within those areas hit worst by recession prime retail, including high street prime, has held up reasonably well with vacant units relet and rents adjusting. As our IPD figures show rents on standard shops have reduced. The index reaching a peak in 2008 of 135.6 and by 2010 down to 123.7 – see annex 1.

Structural change

9. On top of the recession the retail sector has also been undergoing a longer period of significant structural change. It is perhaps too easy to forget the significant changes that have take place:

- the huge growth in out-of-town supermarkets and their size and what they sell;
- the growth of internet shopping;
- out-of-town shopping centres and retail parks;
- demographic change and the impact this has on spending;
- changes to shopping hours, Sunday trading etc;
- and, even more minor changes such as the increasing presence of retail on petrol station forecourts.

10. Our members' perspective is that this combination of recession and structural change has been felt particularly in secondary retail locations. Primary remains relatively strong and in some of the best shopping malls vacancies are 1% or less. Tertiary locations such as the parade of local shops on a housing estate has also been able to withstand these impacts because of the catchment area it has and footfall that is created by people taking their kids to school, visiting the doctor, stopping in their cars, etc.

11. It is worth stressing in respect of structural change that consumers have generally welcomed many of the changes in shopping that have taken place: supermarket diversification beyond food retailing, shopping on the internet, longer opening hours, out-of-town centres and retail parks. However, consumers also have concerns about the state of some of our high streets. We do not believe you can turn back the clock on the structural changes that have taken place – many cannot be overturned and to do so would deprive the UK consumer of convenience, choice, good value, and hurt our nation's efficiency and productivity.

    We believe the focus of this review should therefore be:

- How to get customers back on to our high streets and create the footfall that will sustain a healthy mix of shops.

- In secondary locations particularly, how to manage the transition to other uses, where there is too much retail as result of the various changes that have taken place

<u>What are the issues?</u>

12. As part of our submission we have focused on four key issues:

- The costs of occupying retail premises and terms on which they are let.

- How the high street as an entity itself is run.

- The retail offer and other factors, such as parking.

- The issue of empty shops.

Rents and rates (and other lease terms)

Rents (See annex 1 for detailed IPD figures)

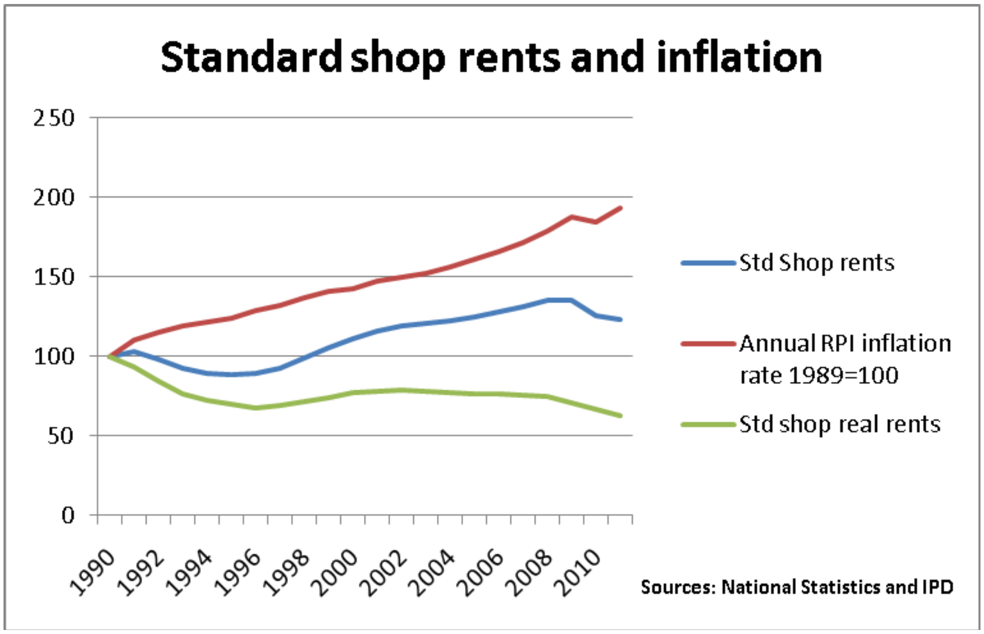
13. Rents in the retail sector are normally set with reference to the local market and what other comparable properties have been let at in the vicinity. Whilst any individual retailer may feel their rents are high in the context of their business plan, looking in aggregate at IPD data it shows that real rents have fallen on standard shops by 37% since 1990. In nominal terms, this equates to a rise in rents of 24% since 1990, but a rise in inflation, measured by the RPI, of 94%. This does not mean that the property sector has been careless with its investment. As explained previously, the vast majority of our members' retail holdings are now in retail warehouses and shopping centres where rents have risen.

14. Even on the high street clearly there will be up-and-coming areas where rents have risen more significantly and a retailer feels they have been priced out, but there is no ability on the part of the landlord to unjustifiably remove a tenant before the end of their lease simply to capture the market rent, or to apply an unscheduled rent uplift. Equally, if the lease is within provisions of the 1954 Landlord and Tenant Act, the retailer's security of tenure will be assured, providing they can meet the market rent.

15. Perhaps a more pertinent question for the purposes of this review is not are rents high, but do rents adjust to the circumstances we have seen over the past few years of a retail sector facing recession and longer-term structural change?

16. The IPD data on standard shops shows that rents do adjust, as the real terms reduction of 37 per cent since 1989 indicates.

17. A further legitimate question to ask is if rents adjust, then do they adjust quickly enough? A process that relies on comparison with other equivalent rents being set in the market is inevitably not going to adapt as quickly as some retail markets, where prices may be being set virtually daily. There is nothing in the IPD data, however, to suggest that there is a long lag in market rents adjusting. It took four years for rents to reach their low point in the last early 1990s recession, losing 15%. In the current recession, the rent on standard shops is about 12% down on what it was at its 2008 peak.



18. An issue that sometimes arises in the context of rent is upward only rent reviews (UORRs). In the recession of the early 1990s this was undoubtedly an issue, with the vast majority of occupiers on long leases of 20 years plus, with upward only rent reviews. There has been significant change in property market over the past two decades, however, and we do not believe that UORRs are now a significant issue.

A number of factors have brought this about:

19. Leases are far shorter than they were in the early 1990s and the incidence of break clauses far more commonplace (34% of standard shop leases now have a break clause compared to 4% in 1999). Our latest annual lease review for 2010/11, which was sent to the Review Team under separate cover, also shows that the average new lease in the sector is just 7.7 years long, or 5.7 years once break clauses are take account of.

Lease lengths in the retail sector (not including breaks)

	1999	2000	2001	2002	2003	2004	2005	2006/07	2007/08	2008/09	2009/10	2010/11
Standard Units	12.4	10.9	10.9	11.8	9.9	9.7	9.6	9.5	9.7	9.0	7.7	7.7
Shopping Centres	13.1	11.3	12.6	11.0	10.5	9.6	9.4	8.2	8.8	8.5	8.1	7.7
Retail Warehouses	21.5	17.1	12.9	16.9	16.1	15.7	15.0	14.0	12.7	12.3	11.5	11.1

Source: BPF/IPD Annual Lease Review 2011

20. Every second year we do a more detailed analysis of small business leases with IPD. The latest results are therefore from last year, 2009/2010, but show that the average small business with a standard shop would have a lease of just 4.4 years, and therefore not face a rent review, let alone an UORR.

Lease lengths in the retail sector by size of tenant and type of unit

Source: BPF/IPD Annual Lease Review 2010

21. The property industry therefore uses UORRs probably in only about 5% of new leases. They are tremendously helpful in certain circumstances, both for landlord and tenant in situations where there is considerable development risk and a long-term tenant of strong covenant is prepared to take a long lease on UORR terms. This allows the landlord to source finance for the development, which would otherwise not be forthcoming, and usually on more favourable terms. The tenant will normally feel the advantage of this with the rent lower than it would be on other terms. Large city office developments for example, would be far more difficult to fund without UORRs and therefore harm the UK's ability to provide the best international space.

22. Tenants also do not believe this is the problem issue it once was and as explained can gain from it. Against a backdrop of greater flexibility and innovation by landlords and shortening lease lengths it is quite rare to hear complaints about UORRs from the retail sector. Indeed sometimes concern is expressed by retailers that a ban on UORRs would be counterproductive in terms of constraining development and therefore new retail space at a time when the development of new retail space is at a low ebb.

BRC head of property Beth Hinde said UK retailers have been more actively campaigning against quarterly rents and upward-only rents have not been as high on the agenda as they were earlier in the decade.

She added that some retailers would not want upward-only rents to be abolished because there are "quite a few retailers big enough to do their own deals, who would be prepared to pay if it means they get the right properties".

One major UK high street retailer regarded the idea of a ban in the UK as "an insane idea". He said: "The cost of funding for new developments will go through the roof and starting rents would also be higher."

Retail Week, December 4, 2009

23. It is worth stressing that during the current recession a lease with a UORR with a rent review would probably see its rent stay static, as market evidence would not indicate a rent rise. Other methods of executing a rent review, such as a link to RPI, or a fixed percentage uplift, would lead to a rent rise. As has been shown if rents were linked to RPI it would have left rents for standard shops significantly higher, a 24 per cent versus 94 per cent increase over the past 20 years.

24. One basis on which rents would more closely mirror retailers' fortunes is to base rents on turnover. Some of our larger landlords have been using turnover rents, particularly in shopping centres, where the fortunes of the occupier and landlord are closely interlinked. Capital Shopping Centres, Land Securities and British Land all use turnover rents, but have run up against lack of take up by the retail sector. There are several cultural and technical barriers to overcome. A lack of familiarity and knowledge of this method is a barrier. Another is a suspicion on the part of occupiers about how their turnover data will be used and trust on the part of the landlord that it will be accurate. Some protocols are needed to help address this. Turnover rents also don't work well with security of tenure. If your tenant is underperforming as a landlord you will want to correct that.

25. Clearly turnover rents are something which only really works in the retail sector (and not industrial or office sectors) and that makes it difficult to have any policy interventions to encourage their use. If turnover rents are to become more commonplace then a culture shift will be required, however. Government has one lever which is the SDLT charged on leases. If Government wanted to promote greater use of turnover leases SDLT concessions could be offered on leases that were on a turnover basis.

<u>The costs of occupation – rates</u>

26. Rates are linked to the retail prices index and therefore have risen significantly since the national non-domestic rate system was introduced in 1990. Every 5 years a revaluation may shift the burden amongst the different sectors – retail, office and industrial – but it doesn't reduce the overall sum raised.

27. Business has generally been supportive of the system, welcoming the certainty it provides, particularly when compared with the varied increases seen in different local authorities' council tax rates.

28. We are not so sure that linking business rates to the RPI provides the certainty that businesses like or has kept rate rises particularly low. Inflation for example, as measured by RPI, has varied between -1.4% and 5%. As we have shown, RPI has also grown by 94% since 1990.

29. Arguably, if certainty is what occupiers and Government are seeking then a more sensible system would be to link the annual increase to a fixed uplift, for example, the inflation target of 2%. This would also save a lot of administrative time and resource for all concerned.

Other lease terms

30. As illustrated earlier in this section lease lengths have reduced significantly over the past two decades reflecting structural changes rather than just the impact of recession. The incidence of break clauses in leases, including retail sector leases is also much more common.

31. Another flexibility which the BPF itself has pushed is allowing tenants to sublet at the lower of the market and passing rent. Older leases often contained clauses that prevented tenants from sub-letting at the market rent and therefore potentially affecting the value of the landlord's investment. In 2005 the BPF orchestrated its Sub-Letting Declaration, which most of the country's leading landlords pledged to support. Our understanding from feedback from many major law firms is that this has helped change market practice and it is rare to find a new lease with such restrictions in it these days.

32. Many of these changes which make leases more flexible - shorter leases, break clauses and ease of sub-letting, are meant to help occupiers such as retailers get the lease that is best for their business. A side-effect, however, is that they are likely to increase the number of empty units on our high streets, as occupiers find it easier to walk away from a unit than they did in the past. Landlords are having to adapt to this changing environment and that is placing greater emphasis on customer retention and service, than perhaps in the old days of inflexible long leases.

33. Landlords have also been instrumental in assisting struggling tenants during the current downturn. New leases are being negotiated on the basis of monthly rather than quarterly rent payments. Some of the leading landlords have enshrined this in particular products aimed at the retail community, such as Land Securities' Clearlet: http://www.landsecuritiesretail.com/about-us/our-approach/clearlet. Others, such as Prudential, offered their tenants a temporary change from their normal lease payment terms during the recession and have been willing to roll this over during the stuttering recovery. The property sector has also been very prominent in several insolvencies and restructurings, being the primary creditors that have supported the rescuing of household names such as JJB, Blacks and Focus DIY.

34. One of the initiatives the sector is keen to take on is to develop a standardised modern retail lease, which reflects the significant change that has been seen in leasing practice. Once adopted at the large-end of the sector, we are convinced this would trickle down into practice at the small end. We have made some progress in this work, and are seeking the Review's support for it.

Subsidies

35. Whilst we have focused on mainly positive recommendations at the start of our submission, it is perhaps worth explaining why we are not supporting a couple of common suggested solutions.

36. One solution sometimes cited in other retail sector reviews is subsidising some units for use by smaller shopkeepers? So for example, in the context of a shopping centre, a few units are let on lower rents to small shopkeepers, with the policy imposed through some sort of planning obligation.

We have always been sceptical of such a policy, because:

- One business's subsidy is another's unfair competition. The new greengrocer in the centre may thrive, but on a subsidised rent and therefore competing unfairly with greengrocers outside the centre.

- Even if the rent is subsidised the business may find the other costs of occupying such a unit prohibitive. Shopping centres will for example, have significant service charge costs to manage the communal areas, which may be unaffordable.

- In most areas at present there is no shortage of opportunities for independent retailers wanting to start up or move, and we think these opportunities will increase as high street 'names' reduce their number of stores . There will of course be fierce competition for prime pitches, but there is plenty of retail space, priced competitively, for those seeking to start or expand a retail business. Covenant strength was sometimes an issue in the past. The landlord wanting an 'established name' to guarantee their future income and on-sale value of their property, but in the current climate, again outside prime areas, most landlords will consider most retailers.

- If the motivation is mix, generally our members are very conscious of keeping the retail mix they offer in centres attractive and fresh, with a combination of established names and newer or foreign retailers.

> ***Case study***
>
> *One of our members offered a subsidised space to a retailer in an area that was up-and-coming, but with the clear intent that they would eventually pay market rent.*
>
> *Because the area has thrived rents have risen substantially and the retailer cannot afford them. At rent review they have therefore launched a local campaign to stop the landlord applying the full market rent. The landlord is a pension fund and has a duty to its trustees to maximise their income.*

37. A second more minor financial assistance sometimes offered by local authorities and other agencies is grants for shop fit outs. The feedback of our members on those is that they are easily abused, with the equipment bought via the grant often removed from the premises and sold.

Planning and managing our high streets

38. How a high street is shaped and therefore its identity, and how policies to improve it are driven, relies not only on the retail sector, but the owners of the high street and local authorities.

39. The shopping centres and retail parks our members own have the huge advantage of often being under single ownership. It is difficult to see how that can be replicated on the high street, where there is a multiplicity of owners often, with different motivations and business plans.

The role of local authorities

40. Retail is theatre. The successful shopping malls offer the retailers the right stage to operate on. Small towns must do the same for small shops and restaurants. In the absence of a single owner, the local authority must take the lead in creating an enjoyable and convenient environment in which people can shop.

41. There are several simple things local authorities can do:

- Create much more short-term parking on the street
- Offer free parking in car parks during shopping hours
- Tidy up the litter and graffiti
- Add some colour and planting to town centres
- Control crime and anti-social behaviour where necessary
- Provide space for people to relax and socialise

42. Many of these 'softer' measures are now also provided by Business Improvement Districts in areas where the local authority is unable or unwilling to provide them.

43. Local authorities also have a far more strategic role to perform, providing leadership in defining the identity and vision for their high streets, and carrying that forward via plans and actions.

44. We support the Government's National Planning Policy Framework (NPPF), currently out for consultation by DCLG, and the strong encouragement in gives local authorities to have a strategic plan for their high street.

45. Local authorities also have many of the tools that can support their vision of their high streets. Planning policy can be used to support their vision. Compulsory purchase powers likewise.

46. Again there are some exciting opportunities for local businesses, via BIDs and other mechanism, to get more involved in the vision for their high streets and shaping the planning policy that will support it.

BIDs

47. BIDs have generally been widely adopted since the legislation was introduced in 2003 allowing their formation. The first BID in Kingston Upon Thames was established in 2004 and there are now 119 BIDs of which 79 are town centre based.

48. The BPF and its members have always been very supportive of BIDs. Working with the British Retail Consortium, British Chambers of Commerce, ATCM and others we helped drive the original legislation, and were pleased to see it put on the statute book.

48. We always believed, however, that there was one significant flaw, which was that where a local community wanted landlord support for a BID, it should then include all landlords that could be identified and not just a few who the others would free load off the benefit of their contributions. After all, landlords will often the have long-term interest in a town centre and therefore are more likely to want to get involved in planning its vision.

49. BIDs generally enhance an area and therefore lead to a climate in which rents will rise. We have pressed for some time for the landlord contribution to BIDs (which is currently voluntary) to be subject to the same rules as an occupier contribution, that is that there should be a ballot of landlords and where the majority vote to contribute, this should be binding on all. (In practice not all occupiers contribute because the BID will often determine exemptions, for example, for very small shops).

49. Primary legislation sits on the statute book via the Business Rates Supplement Act 2009, which would allow for formal participation by landlords and their contributions in London (It is also the case in Scotland where about half-a-dozen BIDs have formal landlord participation). The fact it only applies to London is a quirk of the wider legislation, which only applies the business rate supplement to London for Crossrail purposes. The secondary legislation has never been put in place, however, which is disappointing as London could already have formal landlord participation in BIDs, and we believe this should be rolled out nationally at the earliest legislative opportunity.

50. More generally, having established a good track record in many areas we believe BIDs could perform more functions than their traditional 'crime and grime' , and provide the infrastructure for managing the high street, marketing it, supporting start ups and strategic planning, with the potential now to also take on planning powers. Kingston Upon Thames, Camden, City Centre BID Liverpool and the New West End Company are all good examples of BIDs that have taken on more strategic functions

Time for Super BIDs - Neighbourhood planning?

51. The Federation has been at the forefront of working with Government to get the Localism Bill amended to allow for business neighbourhood plans. This allows businesses in neighbourhoods where business is predominant to take the lead in drafting the neighbourhood plan for their area, and also makes provision for business input in resident-led plans. With a business neighbourhood plan the process cannot ride roughshod over residents' interests who must still vote on approving the plan. In business areas, however, it allows businesses to take the lead and provides an excellent opportunity for businesses on a high street to help shape planning policy for that area.

52. There are already a few high streets that are taking an interest in being 'front-runners' to test out business neighbourhood planning as the example below illustrates. We believe this is something this Review should support and encourage.

> At Uppingham in Rutland, local business and the community are working together on a neighbourhood plan for the town centre that will promote economic growth and social wellbeing.
>
> ***DCLG press release, 31st August 2011***

53. It may also be appropriate in limited circumstances for a BID to have CPO powers.

The retail offer

54. In this section of our response we have focused on the retail offer to customers. Our members, as large investors and managers of significant shopping centres and retail parks, are generally very successful at delivering a retail offer that proves attractive to shoppers and there may be lessons to be applied to the high street.

Investment

55. Two obvious lessons are that a successful retail environment doesn't just happen. It requires investment and management. In shopping centres our members are perpetually reinvesting some of their rental income to maintain and improve the centre. On the high street it is not so apparent that smaller landlords are investing to keep their assets competitive. This may reflect that the rental yield is not allowing reinvestment to take place, or that the small investor is holding on to profits to pay themselves a pension, etc. There is also a legacy issue, with a considerable number of units on the high street which are not well-suited to modern retailing, and therefore require significant investment if they ever to prove attractive again to national retail chains. Selling electrical goods or to some extent even clothes, is not something that can be done efficiently in many high street shop floorplates, and so there is not just the issue of continued investment, but a legacy issue of lack of investment to make up.

56. This issue of lack of investment is perhaps one of the biggest challenges the high street faces and the review needs to consider. What carrots or sticks will help reverse it? What sources of investment are there to tap into?

What is a High Street's identity?

57. Over the past 20 years our members have sought with success to create great places to shop. Many have taken on their own identity and like any brand have sought to ensure that the consumers' first experience is excellent and consistent so that they repeat purchase.

58. Most of our high streets, however, still have a lot going for them and over the course this section of our submission on the 'retail offer', and the next on 'leadership and coordination', we cover some of the factors, that may explain why some high streets do better than others and touch on issues which might need to be addressed.

59. High streets have some natural advantages, but don't always play to their strengths. For example, there are many activities on a high street, which create natural footfall for its shops. Stations, Post Offices, the other activities in a town, such as offices all create custom. Some towns will have other natural advantages, such as being tourist towns, or being reasonably isolated from other retail activity.

60. Just as many of the shopping centres and retail parks are clear about their identity and seek to reinforce it, so must our high streets. The high street's identity will differ from place to place dependent on the factors listed above and others that affect that place.

61. It has been suggested that the high street needs to compete with out-of-town retailing. We are not sure that for many places that would be the right strategy. However, there are certainly facets of what you would find in out of town retailing, and at the larger end of the sector, which might help the high street.

The variety and mix of shops

62. Our members are very conscious when letting their centres that they have the right blend of retailers. An anchor tenant, mostly established brands, a few new faces, some competitors, etc. Consumers are happy to spend a couple of hours or more comparing goods and prices in different stores and seeking what they want.

63. Most high streets are more reliant on passing trade and very specific purchases. We think it would be a mistake for most high streets to pursue the chocolate box top idyll of a street of independents. That may work on a few high streets that have the benefit of a large tourist trade for example, but most of our high streets are not in that position.

64. We believe the national shop chains are still very much needed on our high streets, but there are significant changes afoot.

65. There was a time when every chain wanted 300 to 500 stores to reach their audience. Now fewer than 100 will do. For some, particularly the international fashion brands, it is no more than 30.

66. The task is therefore not to expunge our high streets of chains. Cloning is yesterday's problem. But to keep the national chains on the high street when they may often have more efficient options elsewhere. In that respect the convenience format of larger supermarket retails may well be the saviour of many a high street and encouraging or retaining that sort of retailer should probably be the aim of most high streets.

Inclusivity

67. One of the key things which shapes the success of a high street is its catchment. A strength of out-of-town retailing is its inclusiveness. Generally, it seeks to appeal to the whole community. It is family friendly for those with children, sufficiently exciting for those without, and

Letchworth has a pirate ship playground planned for its town centre.

seeks to ensure the elderly are well catered for, with good public transport links, mobility aides to use and good internal access.

68. A few high streets have realised they need to do more to attract the whole of the community. Fareham for example, has a small play park within the main pedestrian area. Other towns have fairground rides, e.g Durham and Letchworth has a pirate ship planned. Some have spruced up their municipal gardens to provide leisure space. There are many other examples, but generally all of these measures to attract the broadest customer base are still the exception rather than the rule.

<u>Creation of footfall via location of ‘quasi public’ assets</u>

69. Some activities can create significant custom for their high streets. Quasi public assets such as stations, doctors and dental surgeries, post offices and the like all create footfall for retailers. In supporting high streets we believe we need to be smarter about where such assets are planned to be located. Planning policy and funding policy should be supportive.

70. Office workers can also create significant footfall for our town centres. The Government is currently contemplating as part of its national planning policy framework (NPPF) dispensing with Town Centre First policy for offices. We think this would be a mistake.

<u>Business support</u>

71. Retailing can be very exciting and rewarding, but also very demanding on the individual shopkeeper. In the past there has perhaps been a bias in publicly funded business support towards manufacturing and activities that are perceived to add significant economic value, rather than other more social considerations.

72. Small shopkeepers, however, need support. There are some good examples of this being provided by other larger organisations in their vicinity. Tescos for example has a mentoring scheme and our members British Land have schemes aimed at training local people and supporting local shops.

Case study - The Source

In 2003, British Land worked in partnership with Sheffield City Council to set up The Source, an innovative £5.5 million training and development centre next to Meadowhall Shopping Centre.

Established as a charity, The Source has provided training to thousands of local people, including the long-term unemployed, as well as supporting over 1,000 businesses in the local area. In 2009, it became a National Skills Academy for Retail. The Source is currently launching new hubs in Sheffield city centre and Rotherham town centre.

Other British Land properties actively involved in local retail training programmes include: Birstall Shopping Park in Leeds, Fort Kinnaird Shopping Park in Edinburgh, Parkgate Shopping in Rotherham andSt Stephen's Shopping Centre in Hull.

Recent awards for The Source include a Business in the Community Big Tick Award 2011, for the sixth year running, and the 2010 International Community Support Award by the International Council of Shopping Centres Foundation.

73. The large end of the property sector also has its own benchmarking group, the Real Service Best Practice Group, http://www.real-service.co.uk/members/, which focuses on customer service to tenants and landlord performance. About 20 of the leading landlords and agents participate, benchmarking themselves against each other on a range of measures and learning from exemplars of customer service in other sectors.

74. There are currently no initiatives we are aware of that seek to push best practice amongst smaller landlords. We have always believed this would be beneficial and have toyed with in the past extending some kind of 'lite' version of Real Service for smaller operators, but it is difficult to make the benchmarking service cost effective in its current form, with a significant part of the costs of the programme going into the verification of the benchmarking scores.

Parking availability and cost

75. The Federation hosted a round table with some of its members as part of preparing this submission and parking was generally not felt to be as big an issue as it is sometimes portrayed.

76. Given that the high street relies more on passing trade a preponderance of short-term convenient on-street parking was felt to be a must.

77. It was not felt that consumers spending a longer time on the high street (1hour plus) were dissuaded from visiting it because of a parking charge, what may limit their spend more is how such charges escalate with time; a rapidly rising parking charge leading shoppers to try and get back before the two-hour rate etc. kicked in.

78. The differential between 'free' parking at most out-of-town retail centres and 'paying' parking in town was also generally felt not be a significant factor, particularly as the price of petrol at £6 a

gallon meant any journey of 5 miles plus to an out-of-town would to a large extent negate the benefit of free parking, assuming a modest charge in-town and that consumers act rationally.

79. The tremendous benefit that out-of-town was felt to have over in-town was not the cost of parking, but the convenience of it; that you would be within an easy stroll of your car and where you had children in tow or substantial shopping that was a significant attraction. The design of the town centre and its parking and perhaps allowing for generic trolleys and other shopping aids may duplicate some of this convenience, but in many high street locations that may be difficult if not nigh impossible to implement.

Dealing with empty shop units

80. The Federation has worked closely with the Local Data Company over the past two years to highlight the issue of empty shops. We have also worked with the Mayor in London to promote the website http://www.londonnewenterprise.co.uk, which provides a platform for advertising empty space to new enterprises on preferential terms. And we have been involved with DCLG on the development of their meanwhile use lease.

81. The various factors affecting our high streets are creating more empty shops, but the LDC stats show that the impact is very varied, as are the causes, with some high streets such as Margate, Hull, Stockton and Blackpool suffering long-term high rates of empty units. Some facing more temporary high rates of voids, such as Elephant and Castle in London, in that case because of redevelopment. Some bucking the trend, for example Morpeth, Whitstable and Swindon. But a national picture of empties at an average of 14.5% in Q2 2011.

82. It is noticeable from the LDC figures that several towns with high levels of vacancy can sit in close proximity with places with low levels of empties, suggesting the issue is very localised, rather than reflective of wider factors, such as the state of the regional economy. Margate vs Whitstable, Wandsworth vs Clapham Junction, and Rotherham vs Harrogate are good examples of this.

Empty rates

83. Overlaid on top of these various causes is a significant change in Government policy on empty rates, which was primarily introduced to raise revenue for the previous Government, but whose timing was unfortunate in just starting to take effect as the recession began to take hold.

84. The property industry and indeed occupiers have both passionately opposed this tax on hardship. For many smaller landlords and retailers with empty space, what was their income generating livelihood has not just stopped, but become a liability. We have many examples of smaller landlords, who were relying on their investment in a shop as their pension income and now find they are having to drain their income to pay empty rates.

85. In the context of the high street it also seems absurd that at the very time our high streets need investment, funds are being recycled via the empty rates system to fund other Government spending. The Government's plans for local rate retention should at least remedy that.

Meanwhile uses

86. Much of the policymaking thus far on the issue of empty shops has focused on trying to promote temporary uses to continue to make the high street look visually appealing through 'meanwhile' uses. There are many good examples of this being put into action, either converting shops temporarily for community or charitable use, or for temporary commercial use as pop-up shops.

87. Our observation on meanwhile uses is that they are not used as much as they might be. It is difficult to pinpoint why precisely. Planning can be a barrier and gaining temporary change of use. We therefore welcome DCLG's current consultation on potentially making it easier.

88. A lack of knowledge and expertise, both on the part of particularly smaller landlords and potential occupiers, may also be suppressing the greater use of meanwhile leases. Certainly, such uses seem to be most successful where there is a proactive and knowledgeable intermediary involved, whether that be Camden BID promoting pop-up shops, larger landlords such as Portman Estate with internal expertise, or charities such as 3Space: http://3space.org/. The review should support and encourage such services.

89. Fundamentally, meanwhile uses should be seen as exactly what they are – a temporary solution to what is hopefully in many cases a temporary problem. Landlords will generally prefer to let to commercial full rent-paying occupiers and have little interest either emotionally or financially in leaving premises empty for the sake of it.

90. As we have illustrated via IPD data rents will generally adjust to reflect economic realities and that process should be quicker than in the past with the significant shift in the property market to shorter leases over the past two decades. On the high street it would be very difficult for landlords to manipulate rents given the diversity of ownership.

91. Our larger members do offer concessionary rents, but that tends to be driven by strategic decisions, about the place and mix and experience they are trying to create. At its most extreme, sometimes an anchor tenant will pay little or no rent and the landlord makes that decision on the basis that the tenant will be instrumental to the success or failure of the centre and who and in what quantity it attracts.

92. At the other end of the size spectrum our members do offer concessions to smaller retailers, or new brands from abroad that add to the mix and experience of the centre. This can be done without fear of affecting the rental evidence on which the 'market' rent is based, providing it is done with good reasons which are explained and relatively sparingly. If half the centre was to be offered on concessionary rents, however, any valuer worth his salt would see that as market evidence.

93. On a high street such concessions are more difficult to orchestrate because of the diverse ownership. For many small landlords it may be their only investment and they will naturally want to maximise their income. Also, although retail lease lengths are short, they are still 5.7 years long on average and a smaller landlord is not going offer a concession which would last that length of time on the basis that the market may recover and they are then locked into that rent for the period.

94. Permanently low, or no rent, may also not be that good for many high streets. Whilst the popular perception might be that the occupiers it attracts will be arts and crafts providers of various kind, the reality is often charity shops and tattoo parlours, when what our high streets need is full rent and rate paying tenants, and landlords and local authorities who are investing at least part of their proceeds in maintaining and improving their shops and the shopping experience.

Assisting start-ups

95. One of the ways our sector has traditionally sought to encourage new tenants is via providing a 'rent-free' period. These have predictably got longer in recent years as the lettings market has become tougher, lengthening from an average of 3.5 months in the retail sector in 2000 to 8.3 months in 2010/11.

96. Having such a period of grace from paying rent can be really helpful for new tenants who will have significant fit-out and other costs at the beginning of their tenure in new premises. It can be particularly helpful to start-up businesses whose start-up costs may be high and cashflow take several months to get established.

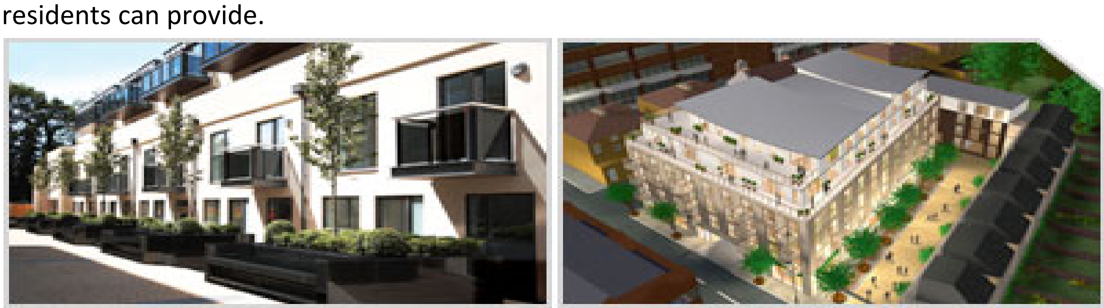
97. The other issue which can arise with start-up businesses is covenant strength. Traditionally, landlords have sought the strongest covenant, becomes that minimises risk of voids and is reflected in the value of the property. The feedback from our members is that covenant strength is far less of an issue in most secondary and even some primary spots on the high street, and whilst still a nice-to-have, is not a significant barrier to start-ups and independents finding space as landlords need to get space let. In a round-table event we hosted with members there was a strong view that a start-up seeking space at present would have no shortage of affordable opportunities.

Change of use

98. There is a strong feeling generally in the sector that some of the significant structural changes in the retail sector, compounded by the recent recession, have made some retail space redundant, particularly in secondary locations. A period of managed transition is therefore required where alternative uses are found for that space.

99. We have already explained that encouraging more quasi public uses on the high street should be encouraged: doctors, dentists, etc.

100. The other obvious change of use is to encourage conversion or redevelopment to residential use. Against the backdrop of a desperate need for housing, and the footfall and ambience that residents can provide.



Residential development on Surbiton's main street

101. We have therefore been supportive of the Government's proposals to make it easier for commercial to residential conversions. Although, the recent consultation exercise on this was mainly about office and light industrial use, there was a proposal to also free up the conversion of existing space above shops and we believe the Review should support this.

102. The Government via DCLG is now also engaged in a broader review of the use classes order. We are in the process of consulting our members on this. Generally our members are supportive of the principal of the order, which is to allow for change of use without the need apply for permission, which is a helpful deregulatory tool. So far as retail and 'A' classifications are concerned, the feeling of our members is that there should be greater flexibility between A1 and A2 use classes. A2, which includes Financial Services: Banks, Building Societies & Bureau de Change, should be allowed to change use to A1, without the current restrictions on it having a ground floor shop display, the rationale being that there is going to be less need for financial services businesses on our high streets in an internet age. Likewise, the boundaries between the various 'A' classes are becoming more blurred. Traditionally such controls where there to stop non-A1 uses moving into the prime pitch, but increasingly retailers are offering uses such as cafes and service-sector offerings within their stores in any event. Many of the service sector uses such as banks, insurance brokers, travel agents and others are moving on-line and new retailers are hard to find to replace them. Trying to regulate where retailers and service-providers can lease space via the planning system is stopping the high-street from being flexible and may be causing long-term voids. The Government should conduct a more formal consultation exercise on this.

Conclusions

103. Retail is not only about buying life's essentials, but for many people a leisure activity. Like theatre or an orchestra, the performance requires planning and management, and significant investment. All of these factors have been absent from many of our high streets for far too long. As a consequence, new formats of retailing have flourished, which have benefited from these factors and the ability to create convenience for the customer and efficient floorplates for large retailers. Social and economic factors have also meant that the consumer is shopping in different ways, whether at their home computer, on a Sunday, or late at night at their local filling station.

104. We do not believe you can turn back the clock and undo the changes that have taken place, nor that consumers would welcome it. Nor do we believe that most high streets should be seeking to 'compete' with large out-of-town formats, but to play to their strengths, the natural footfall and catchment that many benefit from.

105. Probably the most important quality lacking from many of our high streets is co-ordinated planning and management. In the absence of a single owner it requires local authorities to take a lead. To know their high streets' identity, its strengths and weakenesses and have a vision for where it is heading. There are exceptions, from Morpeth, to Lyme Regis, Kingston Upon Thames to Whitstable, all of which have thriving town centres. These are still very much the exceptions, however.

106. The phenomenal appetite for BIDs also shows that on the ground local businesses are prepared to provide time and funding to participate in and take the lead in planning and managing their high street. Such grass roots support is vital and should be encouraged.

107. The property on a high street is the theatre in which shopping takes place and therefore landlords have a significant interest in ensuring their towns prosper. As we have illustrated, however, many of our larger institutional investors members have been retreating from the high street in recent years and instead investing in other retail formats, with a consequence that much of the high street is now owned by smaller investors, who reinvest less than larger landlords. Improving rates of reinvestment by smaller landlords needs to be encouraged.

108. Introducing the legislation that currently sits on the statute book which would give landlords a vote on and enforce their contribution to BIDs would also help give more landlords a stake in the overall prosperity of their high street, and this should be pushed. Investment is desperately needed on many high streets and it makes no sense therefore to have empty rates channelling money away from the high street and towards other Government spending.

109. As we have illustrated, the business of property letting has itself undergone significant structural change over the past two decades. Shorter leases have very much replaced longer ones. Break clauses, subletting at market rent and other flexibilities are very much the norm in new leases, and these trends are long-standing and not just the result of recession. Substantial evidence from IPD, would suggest that market rents have come down significantly in real terms on the high street and are not taking excessive time to adjust to the recession. Indeed, if rents had been set according RPI, they would have left a lot of retail tenants far worse off than a review to market. Some landlords are now offering turnover based rents and these have the advantage of closely aligning the fortunes of landlord and tenant. There are technical and cultural barriers to overcome to their greater use. Government could help overcome the cultural barriers with some small and targeted incentives, perhaps using SDLT on leases as the mechanism.

110. Clone towns we believe is yesterday’s issue. Increasingly, the challenge will be to keep national chains on the high street. A few good chains can help sustain a high street. Supermarket convenience-store formats should therefore be seen as generally positive. What is important is mix.

111. Our members are concerned that the combination of significant structural change and recession has meant some secondary retail locations are no longer viable and there needs to be a managed transition in these places towards other uses, residential being the obvious one, but other community and commercial uses as well.

Annex 1 – IPD figures on rents on Standard Shop Units

		1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Rental Value Growth, % pa																						
Std Shop Central London		-0.3	-14.9	-13.3	-5.1	1.9	3.4	12.2	18.0	12.1	5.8	8.2	4.6	0.6	-0.6	0.9	1.0	5.3	5.9	0.5	-5.1	6.7
Std Shop Rest London		3.1	-3.0	-7.0	-5.3	-2.5	-0.5	2.7	6.5	6.8	7.3	3.6	3.2	3.5	3.0	2.0	3.5	2.5	3.2	0.5	-6.9	-2.3
Std Shop SE & Eastern		2.9	-4.0	-6.5	-5.8	-2.9	-1.4	2.3	2.7	4.7	5.7	2.7	2.1	1.5	2.6	2.6	3.0	2.9	3.1	1.2	-5.3	-3.0
Std Shop Rest UK		6.3	-0.8	-2.9	-1.7	0.3	0.9	2.6	5.3	5.8	4.5	3.5	1.8	1.1	1.5	3.0	2.3	1.9	1.4	-0.3	-8.3	-4.7
Std Shop All UK		3.7	-4.7	-6.0	-3.7	-0.6	0.5	4.0	6.8	6.9	5.2	4.5	2.6	1.2	1.3	2.4	2.3	2.7	2.6	0.2	-7.0	-1.8
Rental Value Growth, Index base = Dec 1989																						
Std Shop Central London	100	99.7	84.8	73.5	69.8	71.1	73.5	82.5	97.3	109.1	115.4	124.9	130.6	131.4	130.6	131.8	133.1	140.2	148.4	149.2	141.6	151.1
Std Shop Rest London	100	103.1	100.0	93.0	88.1	85.9	85.4	87.7	93.3	99.7	107.0	110.8	114.3	118.3	121.8	124.3	128.6	131.8	136.1	136.8	127.3	124.4
Std Shop SE & Eastern	100	102.9	98.8	92.3	87.0	84.5	83.2	85.1	87.4	91.5	96.7	99.3	101.4	103.0	105.7	108.4	111.7	114.9	118.5	120.0	113.6	110.2
Std Shop Rest UK	100	106.3	105.4	102.3	100.6	100.9	101.7	104.3	109.9	116.2	121.4	125.7	128.0	129.4	131.3	135.3	138.5	141.1	143.1	142.7	130.9	124.7
Std Shop All UK	100	103.7	98.8	92.9	89.4	88.8	89.3	92.8	99.1	105.9	111.5	116.4	119.5	121.0	122.6	125.5	128.4	131.8	135.3	135.6	126.0	123.7
Annual RPI inflation rate 1989=100	100.0	110.1	115.2	119.7	121.8	124.5	129.3	132.1	136.8	141.2	142.7	147.5	150.0	152.5	156.8	161.6	166.0	172.0	178.7	187.6	185.0	193.5
Real rental growth	100.0	93.6	84.9	76.5	72.2	70.2	67.8	69.1	71.3	73.9	76.9	77.8	78.5	78.2	77.0	76.5	76.2	75.5	74.5	70.9	66.9	62.6

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